2 May 2017 **ASX Announcement**

# Murray Goulburn asset and footprint review conclusions

Murray Goulburn Co-operative Co. Limited (MG) has today announced the following decisions as a result of its asset and footprint review which has been undertaken in recent months, as an appropriate response to reduced milk intake across the network. These decisions are a continuation of efforts to address MG's cost base, improve efficiencies and ultimately increase earnings and farmgate milk pricing and include:

- Closure of MG's manufacturing facilities at Edith Creek, Rochester and Kiewa
- Forgiveness of the Milk Supply Support Package (MSSP)
- Total write-downs and associated deviation from the Profit Sharing Mechanism of up to $410 million, including non-recurring costs and a potential debt funded milk payment
- Dividend suspension and a review of dividend payout ratio
- FY17 forecast available Farmgate Milk Price of $4.95 per kilogram milk solids maintained

## Closure of Edith Creek, Rochester and Kiewa

It is intended that the Edith Creek facility will be closed by Q2 FY18, the Rochester facility by Q3 FY18 and the MG facility at Kiewa by Q1 FY19. The Rochester and Kiewa closures will occur in a staged manner and are expected to commence in August 2017. These initiatives will ensure that MG has an improved processing footprint going forward.

The closures are expected to impact approximately 360 employees. Once completed the closures are expected to deliver an annualised net financial benefit of $40 million to $50 million. MG anticipates a net financial benefit in FY18 from the closures of approximately $15 million.

MG expects to spend $60 million of capital expenditure to enable the closures, which will be largely funded by maintenance capital expenditure no longer required at the sites. MG will write-down assets of $99 million (post tax $69 million) and expects to incur cash restructuring costs of approximately $37 million (post tax $26 million). These cash costs predominantly comprise redundancy and entitlement payments to impacted employees.

## Forgiveness of the Milk Supply Support Package

In order to mitigate the risk of further milk loss, MG announced today that it will forgive the MSSP. All future repayments of the MSSP which were to recommence from July 2017 will cease. MG will also make a payment to continuing and retired suppliers who made MSSP contributions between July and September 2016, and to any suppliers who recommence supplying milk to MG by 31 July 2017. As a result, MG will record a write-down of this asset of $148 million (post-tax $104 million). MG is taking this step in recognition of the unintended impact of the MSSP.

## Dairy Beverages and Nutritionals capital projects and other write-downs

Following the completion of this asset and cost review, MG does not currently intend to proceed with the proposed major capital investments in Dairy Beverages and Nutritionals. MG will also write-down the carrying value of these projects and various other assets totalling $62 million (post tax $53 million).

**Trading Update**

MG updates the market that due to weaker trading conditions the FY17 forecast available FMP of $4.70 per kilogram milk solids is expected to be approximately $4.60 per kilogram milk solids. MG, however, remains committed to paying a FY17 available average FMP of $4.95 per kilogram milk solids[1].

MG has included in a deviation from the Profit Sharing Mechanism, an amount of up to $34 million, attributable to certain non-recurring costs identified during the asset and footprint review. To protect against any potential further adverse performance for the balance of this financial year, MG has also provided access of up to $30 million of additional debt funded milk payments, to the extent required to maintain the forecast FY17 FMP of $4.95 per kilogram milk solids.

**Deviation from Profit Sharing Mechanism**

To enable MG to implement all of the above initiatives without impacting on the FY17 forecast FMP of $4.95 per kilogram milk solids, MG has resolved to deviate from the Profit Sharing Mechanism by an amount of up to $410 million. The deviation includes the asset write-offs, non-recurring costs and potential debt funded milk payments, to the extent required.

The Board of Directors, with the unanimous support of the Special Directors, are of the opinion that these actions are in the interests of all relevant stakeholders. As required by the Profit Sharing Mechanism Deed, an independent expert's opinion has been obtained from Grant Samuel and Associates Pty Limited, concluding that the deviation is in the overall interests of supplier shareholders (both as suppliers and as shareholders) and unitholders. A summary of their opinion is attached to this announcement.

**Commitment to a strong balance sheet**

MG remains committed to ensuring a strong balance sheet throughout the footprint restructure and into the future. MG has suspended dividend payments with immediate effect including the final FY17 dividend. MG will consider its dividend payout ratio and will provide an update on progress at an appropriate time.

This dividend suspension will generate additional capital, to support the balance sheet.

**Base for rebuilding**

Commenting on the outcomes of the review, MG's Chief Executive, Ari Mervis, reinforced the importance of these decisive actions.

"At MG we are acutely aware of the impact that our decisions will have on our various stakeholders, including the communities in which we operate. We are committed to ensuring that we provide our affected employees with appropriate levels of support and the recognition that they deserve during this period of transition. MG will support employees by providing access to career transition and redeployment services as well as working with Federal and relevant State Governments to leverage existing programs.

"These have been difficult decisions to make, however they are necessary steps on the journey to ensure the future strength and competitiveness of Murray Goulburn. A strong MG is of fundamental importance to the Australian dairy industry and these decisions are necessary to lay the foundation for the future."

A communication of these decisions to suppliers is attached to this announcement.

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[1] See MG announcement on 27 October 2016 regarding $50 million in debt funded cash payments to suppliers outside of the Distributable Milk Pool.

**Review webcast**
A webcast of the asset and footprint review conclusions will be held at 11.30am (AEST) today.

Webcast details are as follows:

**Date:** Tuesday 2 May 2017
**Time:** 11.30am
**To register:** http://edge.media-server.com/m/p/agvt7zcz

**Media contact:**


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**About the MG Unit Trust**

The MG Unit Trust is a special purpose funding vehicle which provides its unitholders with an economic exposure to the business of Murray Goulburn Co-operative Co. Limited (**Murray Goulburn**). The MG Unit Trust invests in notes and convertible preference shares issued by Murray Goulburn. The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn. Unitholders are entitled to receive distributions equivalent to any dividends paid to the ordinary shareholders of Murray Goulburn. Dividends paid on ordinary shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism described in Section 6 of the Product Disclosure Statement dated 29 May 2015. Units do not confer a direct interest in Murray Goulburn.

Murray Goulburn is Australia's largest dairy foods company and one of Australia's largest food and beverage companies with annual turnover of approximately $2.5 billion. Through its co-operative structure, Murray Goulburn has approximately 2,000 supplier shareholders. Murray Goulburn manufactures and markets a full range of dairy and nutritional products such as cheese, milk powder, butter and fat, drinking milk and liquid milk products, nutritionals and value-added products, such as infant formula. Murray Goulburn supplies the grocery, foodservice and ingredients channels domestically and around the world, particularly in Asia, with its flagship Devondale, Liddells and Murray Goulburn Ingredients brands.

2 May 2017

# Murray Goulburn asset and footprint review conclusions

Dear suppliers

Today we announced the following decisions as a result of the asset and footprint review which has been undertaken in recent months as a response to reduced milk intake. These decisions aim to address our cost base, improve efficiencies and ultimately increase earnings and farmgate milk pricing. These decisions include:

- **Milk Supply Support Package (MSSP) contributions to cease**
- **Closure of MG's manufacturing facilities at Edith Creek, Rochester and Kiewa**
- **Total write-downs and associated deviation from the Profit Sharing Mechanism of up to $410 million, including non-recurring costs and a potential debt funded milk payment**
- **Dividend suspension and a review of dividend payout ratio**
- **FY17 forecast available Farmgate Milk Price (FMP) of $4.95 per kilogram milk solids maintained**

Further details of these announcements are in the ASX release attached to this letter.

**Milk Supply Support Package**

All future repayments of the MSSP which were to recommence from July 2017 will cease. MG will also pay each current and retired supplier an amount equal to the MSSP contribution that they made between 1 July 2016 and 30 September 2016. These payments will be paid with June milk proceeds, due to be processed on approximately 15 July 2017. MG is taking this step in recognition of the unintended impact on suppliers of the MSSP and your ongoing commitment despite these difficult times.

**Closure of manufacturing facilities at Edith Creek, Rochester and Kiewa**

It is intended that the Edith Creek facility will be closed by December 2017, the Rochester facility by March 2018 and the MG facility at Kiewa by September 2018, affecting approximately 360 employees. The Rochester and Kiewa closures will occur in a staged manner and are expected to commence in August 2017.

We are committed to supporting our people and providing them with the recognition that they deserve during this period. These closures in no way change our ability to collect and process our suppliers' milk, with intake able to be processed at our other manufacturing sites.

**Trading Update**

Due to weaker trading conditions the FY17 forecast available FMP of $4.70 per kilogram milk solids is expected to be approximately $4.60 per kilogram milk solids. We remain committed to paying a FY17 available average FMP of $4.95 per kilogram milk solids[1], proposed to be supported by a deviation from the Profit Sharing mechanism, if required.

[1] See MG announcement on 27 October 2016 regarding $50 million in debt funded cash payments to suppliers outside of the Distributable Milk Pool.

### Commitment to a strong balance sheet

MG remains committed to ensuring a strong balance sheet throughout the footprint restructure and into the future. We have suspended dividend payments with immediate effect including the final FY17 dividend. MG will consider its dividend payout ratio and will provide an update on progress at an appropriate time.

MG believes this dividend suspension will generate additional capital, to support the balance sheet.

### Base for rebuilding

Over the past months I have appreciated the opportunity to meet many of you and hear your feedback. I am aware of the impact that this announcement will have on everyone connected with MG, particularly in the Edith Creek, Rochester and Kiewa communities. These have been difficult decisions to make, however they are necessary to strengthen our business for the future and support a competitive farmgate milk price.

We recognise that this has been a challenging period for you and appreciate your ongoing support. The actions outlined above have been made by the Board and Management to ensure a strong MG that can deliver sustainable and competitive returns for our shareholders.

Kind regards

**Ari Mervis**
**Chief Executive Officer**

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2 May 2017

The Directors
Murray Goulburn Co-operative Co. Limited
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Dear Directors

**Proposed Deviation from Profit Sharing Mechanism Deed**

## 1 Introduction

The Directors of Murray Goulburn are considering certain initiatives aimed at addressing Murray Goulburn's cost base, increasing business efficiencies and growing earnings, with the objective of improving milk price and underpinning ongoing milk supply ("the Proposal"). The key elements of the Proposal are as follows:

- a full forgiveness of the remaining amounts due under the Milk Supply Support Package ("MSSP") ("MSSP Forgiveness"), up to $142 million. In addition, MSSP amounts recovered from Suppliers between July and September 2016 totalling $6 million will be repaid to the continuing or retired Suppliers. The aggregate profit and loss impact will be up to $148 million. No further MSSP recoveries will be made;
- a rationalisation of Murray Goulburn's manufacturing facilities ("Rationalisation"), with three older and smaller facilities to be closed and milk to be redirected to larger, more efficient facilities. The pre-tax cost of this rationalisation up to $136 million, of which approximately $99 million will be non-cash write downs and approximately $37 million will be cash costs, principally redundancies;
- a further write-down of the carrying values of other assets ("Balance Sheet Write-Off") of up to $62 million, including goodwill and brands, the capitalised value of strategic projects and miscellaneous other assets;
- the identification of various costs up to $34 million as "One-off Costs" and their potential exclusion from the Distributable Milk Pool ("DMP"); and
- to the extent required to support an FY17 milk price of $4.95 per kgms, debt-funded milk payments of up to $30 million ("Additional Milk Payment"). These payments would be excluded from the calculation of the DMP.

It is proposed that the aggregate earnings impact of these five initiatives, totalling up to $410 million, be excluded from the DMP. Accordingly, the Proposal will involve deviations from the terms of the Profit Sharing Mechanism Deed (collectively, a "Deviation").

The terms of the Profit Sharing Mechanism Deed require that the Board of Murray Goulburn commission an independent expert to opine on the proposed Deviation. Accordingly, the Directors of Murray Goulburn have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to provide an independent opinion in relation to the Proposal. This letter sets out Grant Samuel's opinion as to whether:

- Murray Goulburn's current circumstances warrant deviation from the Profit Sharing Mechanism Deed to protect Murray Goulburn's milk supply and profitability and to support its supplier base; and

- the Deviation is in the overall interests of Suppliers (both as suppliers of milk and as Shareholders) and Unitholders.

## 2 Summary of Opinion

**Loss of milk supply during FY17 has undermined the profitability of Murray Goulburn, reduced its capacity to pay a competitive milk price and increased its effective economic gearing. In this**

**context, action to minimise the risk of further milk loss and to improve business profitability is an urgent imperative.**

**It has become clear that the MSSP arrangements are a fundamental obstacle to stabilising milk supply. Commencement of MSSP recoveries, which is scheduled for the start of FY18, will risk significant loss of milk supply, both because the recoveries will reduce Murray Goulburn's ability to pay a competitive milk price and because the MSSP scheme is widely viewed by Suppliers as fundamentally unfair. A full forgiveness of the MSSP receivable is the only way forward that will minimise the potential for further milk loss. Given the reduction in the DMP that would otherwise result from the $148 million MSSP Forgiveness (which would be self-defeating in terms of the effect on milk price), the impact of the MSSP Write-off will need to be excluded from the DMP by way of a Deviation.**

**The Rationalisation of Murray Goulburn's manufacturing facilities is expected to materially improve Murray Goulburn's profitability and should deliver very strong economic returns on a net present value basis. Given Murray Goulburn's urgent need to improve profitability, bolster milk price and minimise the risk of further supply loss, the Rationalisation is clearly in the best interests of Suppliers and Unitholders. The Rationalisation will result in cash and non-cash costs totalling up to $136 million. To avoid the unacceptable effect on milk price that would otherwise result from these expenses, they will need to be excluded from the DMP by way of a Deviation.**

**The Balance Sheet Write-Off and associated Deviation will help to underpin the continued payment of competitive milk prices in the future, by avoiding future write-offs or provisions that would otherwise reduce the DMP or require separate deviations. Similarly, the exclusion from the DMP of the One-Off Costs and the Additional Milk Payment will mitigate risks associated with Murray Goulburn's achievement of its forecast FY17 milk price.**

**The Proposal (and in particular the MSSP Forgiveness) will result in a non-trivial value transfer from equity holders to Suppliers (although much of this value transfer may already be imputed into the Unit price). However, the Proposal will help to minimise the risk of the substantial equity value destruction that would likely follow if the ongoing loss of milk supply was to continue.**

**The Proposal will have a material impact on debt, with the MSSP Forgiveness and Rationalisation having an aggregate funding requirement of $167 million. On the other hand, a failure to pursue these initiatives, to the extent that it resulted in significant further loss of milk, would in any event increase Murray Goulburn's effective gearing. While the Proposal could constrain Murray Goulburn's future access to the public equity markets, the damage in this regard has arguably already been done. The reality is that Murray Goulburn has no choice but to pursue the Proposal.**

**Overall, in Grant Samuel's opinion, the Proposal should materially assist Murray Goulburn in retaining milk supply and improving profitability. It will at least provide Murray Goulburn with an opportunity to pay a competitive milk price for FY18 and beyond, and to re-build its milk supply base (although there can be no guarantee that the Proposal will deliver these outcomes).**

**In Grant Samuel's opinion:**

- **Murray Goulburn's current circumstances warrant deviation from the Profit Sharing Mechanism Deed to protect Murray Goulburn's milk supply and profitability and to support its supplier base; and**
- **The Proposal, including the Deviation, is in the overall interests of Suppliers (both as suppliers of milk and as Shareholders) and Unitholders.**

## 3 Other Matters

The Proposal is the responsibility of the Directors of Murray Goulburn. Grant Samuel's role is limited to the expression of the opinion set out in this letter and is expressed purely for the benefit of the Directors of

Murray Goulburn in their consideration of the Proposal. Grant Samuel does not accept any responsibility to any other party or for any other purpose.

The impact of the Proposal will depend not only on the terms of the Proposal but also on other factors such as the success with which Murray Goulburn communicates the Proposal to its Suppliers and other stakeholders, the competitive response of other industry participants, other external factors (commodity prices, seasonal conditions, etc), and Murray Goulburn's ability to deliver its planned plant rationalisation and cost saving initiatives. To the extent that these issues are capable of being managed or controlled, such management and control is the responsibility of the Directors and management of Murray Goulburn and Grant Samuel accepts no responsibility in this regard.

Grant Samuel has not undertaken any due diligence, does not express any opinion as to whether cost estimates, asset carrying value write-downs or provisions are adequate or appropriate, and does not provide any opinion, warranty or assurance that the benefits expected from the initiatives constituting the Proposal will be realised.

This letter has been prepared without taking into account the objectives, financial situation or needs of individual Suppliers, Shareholders or Unitholders. It is a matter for individual Unitholders as to whether to buy, hold or sell units in the Murray Goulburn Unit Trust and for individual Shareholders as to whether to increase or reduce their shareholdings in Murray Goulburn. These are investment decisions upon which Grant Samuel does not offer an opinion. Grant Samuel takes no responsibility for any decisions made by Unitholders or Shareholders in relation to these investment decisions. Unitholders and Shareholders should consult their own professional advisers in this regard. Similarly, decisions in relation to the supply of milk to Murray Goulburn are matters for Suppliers and potential suppliers. Grant Samuel does not offer any opinion in relation to these decisions and takes no responsibility for any such milk supply decisions.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

Grant Samuel & Associates